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2 British Firms Are Finalists for U.S. Job in Iraq

Contract Outsourcing Weighed

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By Alec Klein
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Two British firms have emerged as finalists to win the largest U.S. security contract in Iraq, according to sources familiar with the matter.

In what has become a contentious competition, Aegis Defence Services and ArmorGroup International are considered top contenders for a contract worth up to \$475 million to provide intelligence services to the U.S. Army and security for the U.S. Army Corps of Engineers on reconstruction work in Iraq. Aegis won the initial contract in 2004, a three-year, \$293 million deal.

The Army has eliminated another British firm, Erinys Iraq, but that company is contesting the decision in sealed documents filed in the U.S. Court of Federal Claims, said sources who spoke on condition of anonymity because the contract review process is confidential. It was unclear yesterday whether the Army had chosen other finalists, but two other firms confirmed that they, too, are out of the running -- Control Risks of Britain and Blackwater Security Consulting of North Carolina.

The battle for the lucrative contract has drawn the attention of members of Congress who have questioned the use of private security contractors, about 20,000 of whom operate in Iraq, and whether the military should be outsourcing such critical tasks as security and intelligence to private firms. Based on a request from a member of Congress, the Special Inspector General for Iraq Reconstruction is conducting its second audit of Aegis.

In its 2005 audit, the inspector general criticized some of Aegis's Iraq operations, saying, for example, that the company failed to prove that its armed employees received proper weapons training. Aegis said it addressed all of the inspector general's concerns.

Meanwhile, federal lawmakers have requested that the Government Accountability Office, Congress's investigative arm, also look into the use of private security contractors in Iraq. The GAO has begun to review contractors there, building on previous reports, spokesman Paul Anderson said. "We're still early in the process."

The Army's selection of finalists for the Iraq security contract is a replay of events in June, when Erinys first filed a court complaint against the military's decision to remove the company from the "competitive range" of bidders. At the time, a judge granted Erinys a temporary restraining order to stop the Army from awarding the contract until its claims were heard.

Erinys, which already has about 1,000 employees in Iraq and provides security for some military personnel there under a separate contract, maintained that the Army did not thoroughly review its proposal and failed to follow procurement rules. The Army agreed to re-review the bids, including Erinys's proposal, and again removed the firm from the competition.

"The Army's decision to once again remove Erinys from the bidding process is bad economics and demonstrates the fundamental flaws in this procurement," said an Erinys spokesman. "We are taking

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
steps to ensure that our proposal is given fair treatment on a level playing field, in accordance with applicable government laws and regulations."

ArmorGroup spokesman Patrick Toyne Sewell declined to comment. ArmorGroup already is one of the largest security firms in Iraq, with more than 1,200 employees. Aegis, which also has about 1,200 contractors in Iraq, declined as well to comment on the new contract, but Kristi M. Clemens, the firm's executive vice president, touted its work on the current contract.

"We stand by our performance and . . . have provided the U.S. government good service," she said, noting that in three years, none of its clients in Iraq has been killed while traveling 3 million miles.

The Army is expected to make a final decision soon. "We are proceeding with discussions and preparation for award," said Chuck D. Martino, deputy chief of staff of the Joint Contracting Command-Iraq/Afghanistan in Baghdad.

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